EXHIBIT 2
GITA Memorandum to JCCR
October 30, 2003
Cost Issues

The Government Information Technology Agency (GITA) believes a phased approach to telecommunication outsourcing with extensive price controls of the kind included in the Request for Proposal (RFP) submitted to JCCR is in the State's best interest. This phased approach:

– reduces the State's risk;
– is consistent with the State's current decentralized IT funding;
– will enable the State to move more rapidly to convergence; and
– has a far greater chance of success.

The Department of Administration (ADOA) has expressed the view that the State should not proceed with the outsourcing RFP without identifying all of the State's future costs. However, there are many examples of project failures among states that have issued large scale RFPs to address all issues and costs (i.e., centralization, convergence, IP enablement, cost savings, rural build-out, etc.), without a phased approach. Examples include: Alaska, Georgia and Texas. ADOA also offers that the RFP does not sufficiently leverage investment by the private sector to move the State to convergence.

The price controls, convergence plans, leveraging of private sector investment and other cost protections built into the RFP are described below:

Contract Prices

- The respondents to the RFP are required to offer contract prices that can readily be compared to current service rates from the Arizona Telecommunication System (ATS) division of ADOA. The State will be able to use past usage to project aggregate reduced State costs.

- All future pricing for voice and data services will be established in the contract. The RFP respondents will bid reduced rates based on increases in volume (as state agencies are added to the outsourced environment), enabling the State to benefit from increasing economies of scale.

- An analysis of the current ATS cost model, including personnel, maintenance costs, etc., is included in the RFP. The service provider will be required to propose service rates that cover all appropriate costs, including regular maintenance of the shared data network to enable it to meet State service levels.

- Detailed hardware or circuit inventories from all agencies are not required to enable the vendor to bid contract rates because agencies will only pay the outsourcer for management services, not the underlying commodities.

Carrier Services & Product Rates

- The State will maintain ownership of all current telecommunication assets since most of the existing assets are fully depreciated and the State does not want to re-pay for these assets in its service rates.

- The statewide telecommunication contracts (i.e., carrier services, LAN/WAN equipment, etc.) will <u>not</u> be eliminated and will allow continuous competition on future commodity purchases.

- The Statewide Telecommunication Roadmap (Roadmap), an exhibit to the RFP, calls for the State to consider re-bidding and further strengthening the State's commodity contracts over the next 2 years.

Costs for Additional Agencies

- The additional work process for adding additional agencies and locations to outsourced management also has price protections. It includes an agency requirements and cost analysis, Project Investment Justification (PIJ) submittal and review, negotiation between the State and the service provider and oversight by a State program office.

- Since each agency is appropriated its own budget and manages its own personnel and services, the analysis by the impacted agency and a transition plan between the impacted agency and service provider are essential to avoid unforeseen costs, interruptions in service, termination charges, personnel issues, etc.

- GITA believes that infrastructure changes and upgrades should be driven by State agency business needs and that individual agencies should be responsible for costs that impact their agency only. For example, if the State attempted to include the costs of major upgrades of arcane systems in a statewide RFP (such as connecting and upgrading the networks in the prisons run by the Department of Corrections), the rates for all state agencies would dramatically increase. GITA believes that proposals for solving these types of problems will have to be debated and considered on their own merits.

- The Additional Work Process is modeled after processes used successfully by the federal government for decades. The Department of Revenue is currently deploying a similar process on the BRITS project with reported success.

- If the State and the service provider can not agree on implementation of an additional work process, the State can consider other outsourcing avenues.

Costs of Convergence

- GITA believes that moving the entire State to convergence should be a phased process with swift scalability. As the State moves to a converged network, increased savings will be realized from decreases in overhead and duplication, such as the elimination of redundant networks and circuits and reductions in moves, adds and changes.

- The respondents to the RFP will be evaluated, in part, on their convergence plan and on their plan for implementing the State's Roadmap.

- The selected contractor must submit a detailed convergence plan (consistent with their initial plan but including more detail and costing) within 180 days of contract award. The convergence plan must take into account the State's budget constraints, must be phased and must leverage existing investments to the extent possible.

- There may not be a good business case for convergence for some agencies in the near future. Any statewide convergence plan will have to take account of the State's widely varying needs and avoid increasing rates to all agencies to pay for upgrades for a few.

Leveraging Private Sector Investments

- The RFP encourages vendors to propose financing, benefit sharing and cost saving proposals in response to the RFP and during the term of the resulting contract.

- The service provider may recommend changes to the State's technology in its proposal and during the term of its contract but decisions on asset replacement will be made by the State.

- The State can pursue leasing or other financing arrangements for new technology as it migrates to that technology.

- The vendor community will invest in the State but only if the State is willing to pay for the investment over a period of time. The vendors may propose a longer term contract to recoup any investment in new technology.

- The State will not be able to use private sector investment without eventually being responsible for the related costs. The State will either pay for technology upgrades directly or indirectly through contract rates and through costs at contract termination/expiration.

- If upgrade costs are proposed to be included in contract service rates, the RFP requires the contractor to enable the State to:
    - avoid an expensive payout for assets at contract termination or expiration; and
    - retain control over the vital components of its infrastructure at the end of the contract.

Oversight

- The State will have the right to audit the service provider's bills and billing practices at any time.

- Compliance by the service provider and the agencies with the State's enterprise architecture and related technical standards will allow the State to avoid inflated costs from the purchase of obsolete or unproven technologies.

- Each agency will continue to be responsible for Project Investment Justification (PIJ) submittal for their individual telecommunication projects, as mandated by statute. Review and approval/disapproval of these PIJs will enable GITA and ITAC to provide oversight to the contractor's performance and pricing and to the project's overall effectiveness.